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Exhibit 9.12

Presented during cross-examination

of Staff witness Jerry Albrecht

Docket No. 6680-UR-117

Public Service Commission of Wisconsin
Direct Testimony of Jerry Albrecht
Gas and Energy Division

Wisconsin Power and Light Company
Docket 6680-UR-115

September 12, 2006

Q. Please state your name and occupation.

A. My name is Jerry Albrecht. I am employed in the Gas and Energy Division at the Public Service Commission (Commission) as a Senior Rate Engineer. I have been employed at the Commission for over 20 years. I have reviewed and prepared both electric and water cost-of-service studies and designed electric and water rates for numerous utility rate proceedings, including prior proceedings involving Wisconsin Power and Light Company (WP&L).

Q. What is the purpose of your testimony?

A. The purpose of my testimony is twofold. First, my purpose is to present an alternative electric revenue allocation and electric rate design proposal in this proceeding. Secondly, I will respond to changes proposed by WP&L regarding transformer rentals.

Q. What exhibits are you sponsoring in this proceeding?

A. I am sponsoring two exhibits, Exhibit ____ (JA-1) and Exhibit ____ (JA-2).

Q. Were these exhibits prepared by you or under your direction?

A. Yes.

Q. Please describe Exhibit ____ (JA-1).

A. The exhibit contains three schedules. Schedule 1 summarizes the present and proposed revenue for the major electric cost-of-service groups. Schedule 2 is a summary of the present and proposed revenue for each electric rate class. Schedule 3 shows the details of

the present and proposed electric rates and revenue for each rate class, based on the Commission audit staff's estimated final fuel revenue and proposed revenue requirement and my alternative rate design.

Q. Please describe the recent chronology of electric rate change proceedings for WP&L.

A. In August 2005, the Commission authorized the current base rates for WP&L in docket 6680-UR-114. In December 2005, the Commission authorized interim fuel surcharges in that proceeding. A decision is pending before the Commission to replace the interim fuel surcharges with final fuel surcharges. It is likely that the final fuel surcharges will be authorized before the hearing in this proceeding.

Q. What present revenues did you use in your analysis?

A. WP&L based its present revenues of $870,842,000 on its base rates with no fuel surcharges. Commission audit staff forecast of present revenue of $968,064,000 uses the base rates plus the interim fuel surcharge. My calculation of present revenue that incorporates the interim fuel surcharge is slightly higher due to a correction I made to the pricing of WP&L present revenue at base rates.

Commission audit staff estimates that the final fuel surcharge will produce revenues that exceed the revenue from base rates by approximately $50,000,000. My calculation of the resulting present revenue is approximately $920,865,000. This is the forecast of present revenues that I used for revenue allocation and rate design. This is less than the present revenue forecast based on base rates plus interim fuel surcharges.

Q. What is the revenue requirement did you use for electric revenue allocation and rate design?

A. I used an electric revenue requirement of $971,227,000. My proposed electric rate design includes the estimate of final fuel revenue in the present revenues. The resulting electric revenue increase is approximately $50,362,000, or 5.5 percent, above the base rates plus estimated final fuel surcharge revenue.

REVENUE ALLOCATION

Q. Please describe the general principles you used in establishing your alternative electric revenue allocation.

A. I developed this alternative revenue allocation using the cost of service information submitted by Commission staff witness Dr. James B. Petersen in this proceeding, along with other information such as the bill comparisons, and bill impacts. I also used my knowledge and experience as a senior rate engineer gained working on previous WP&L rate cases and numerous other rate proceedings. Commission staff's electric COSS analysis supports a significantly lower than average increase for the Small Use customers and higher than average increases for the Commercial and Industrial classes of customers.

My revenue allocation generally follows from the Commission staff electric cost studies. The impacts of the staff's revenue allocation are significantly lower than average increases for the Small Use customers (residential, small commercial, and lighting rate classes) and larger than average increases for the Commercial and Industrial customer classes. However, I limited the individual rate class increases to approximately plus or minus 2 percent around the overall electric increase.

My revenue allocation reflects average increases for the major cost-of-service groups that range from approximately 3.5 percent to 7.5 percent. Schedule 1 of

Exhibit ____ (JA-1) shows the increases of 4.2 percent for small use customers, 6.9 percent for commercial customers, and 7.1 percent for industrial customers. The miscellaneous and lighting classes are part of the small use group and receive a 4.1 percent increase. These numbers are based on using present rates that include an estimate of the final fuel revenue. In addition, Schedule 1 of Exhibit ____ (JA-1) shows the increases for the same groups based on current rates including interim surcharges.

Q. How would you propose to address any significant changes in the revenue requirement subsequent to the Commission deciding the issues in this case?

A. I would propose that the changes be allocated using the appropriate cost allocator if known. For example a large increase in gas costs to operate the company's generators is an energy related cost and therefore an energy allocation would be used. If an allocator cannot be identified for various changes in the revenue requirement then a neutral allocator such as present revenues could be used. Otherwise, the ratio of revenue for each customer class divided by the total sales revenue could be used to adjust to the final revenue requirement.

Q. Please describe the general process of revenue reallocation and revision of the electric rate design subsequent to the Commission deciding the issues in this case.

A. First, I will update the revenue allocation and rate design to reflect the Commission's decisions in this case, using rate design principles and my experience. Adjustments to address any significant changes in the revenue requirement would be done as described above. The Commission will review the revised revenue allocation and rate design and ultimately approve a final revenue allocation rate design when it issues its Final Decision.

RATE DESIGN

Q. What guidelines do you generally use to develop the rate design?

A. The rate design process balances multiple objectives. I used Commission staff's cost study information in this proceeding as a guide in developing rates, however, I also considered many other important factors. Mr. James C. Bonbright,[1] lists the following ten characteristics of a good rate design:

1. Yields the total revenue requirement effectively;
2. Produces stable and predictable revenues;
3. Results in no unexpected changes in the rates themselves;
4. Promotes static efficiency, which in turn discourages wasteful use and promotes justified use;
5. Reflects all present and future private and social costs and benefits caused by using the service;
6. Apportions the costs of service fairly among ratepayers;
7. Avoids undue discrimination in rate relationships (no subsidies);
8. Promotes dynamic efficiency by encouraging innovation and economic responses to changing demand and supply patterns;
9. Creates simplicity, certainty, convenience of payment, economy in collection, understandability, public acceptability, and feasibility of application;
10. Eliminates controversy about interpretation.

Q. Does your rate design reflect all of these characteristics?

A. No. These characteristics represent goals rather than a rigid prescription for proper rate design. I believe my rate design achieves many of the above goals. I generally used the

[1] James C. Bonbright, Albert L. Danielsen, and David R. Kamerschen, *Principles of Public Utility Rates*, Public Utility Reports, 1988.

above goals and applied my experience as a rate engineer to develop my electric rate design alternative.

Q. Please describe your electric rate design.

A. This design maintains the current rate structure, which includes seasonal rates, daily customer charges, and mandatory or optional time-of-day (TOD) rates for almost all customer classes. I generally increased customer, energy and demand charges to achieve the Commission audit staff's revenue requirement. The electric rate design does not include any customer class decreases. I endeavored to maintain some of the existing rate relationships such as the differences between summer and winter charges. I also considered customer bill impacts. I limited the increases to any customer class to approximately 2 percent above the overall increase based on the Commission audit staff revenue level. I will discuss some specific issues regarding electric rate design below.

Q. Do you have any comments regarding WP&L witness Mr. Brian Penington's proposal for the High Load Factor Energy Credit?

A. Yes. The current provision shifts costs from higher load factor Cp-2 customers to the average and lower load factor customers on that same rate class. WP&L's proposes to expand the availability to the Cp-1 rate class as well. The result of this change would also result in lesser increases for the higher load factor Cp-1 customers and higher increases for the average and lower load factor customers on that same rate class. This is consistent with the Commission decision to approve this provision in WP&L's last base rate case, docket 6680-UR-114, for the Cp-2 class. The current rate was approved on an experimental basis and WP&L's proposes to maintain the experimental nature of this

tariff. For these reasons, I have included a comparable load factor credit for both Cp-1 and Cp-2 customers in my electric rate design alternative.

Q. Did you also review WP&L's avoided capacity cost analyses?

A. Yes, I reviewed the interruptible credits and parallel generation buyback rate analysis contained in Mr. Penington's Exhibit ____ (BEP-1).

Q. Do you have concerns regarding the proposals to increase the interruptible credits for WP&L?

A. Yes. As indicated in the direct testimony and exhibit of Mr. Penington, the company proposes a rate design that significantly increases the interruptible credits by approximately 35 percent. Mr. Penington also proposed using the avoided capacity cost from the Sheboygan Falls combustion turbine project as the basis for setting interruptible demand credits. WP&L used $67.00 per kW-year as the cost of avoided capacity, which is higher than the annual average cost per kW associated with this plant.

WP&L's $67.00 per kW is significantly higher than the costs that are currently reflected in the interruptible credits available to WP&L's customers. Given the current market and the availability of electric capacity at much lower prices this value is too high to use as the avoided cost basis for determining retail rate provisions. I used a figure of $50.55 per kW-year as the avoided capacity cost of a combustion turbine to calculate interruptible credits. This figure is based on the Commission finance staff's economic analysis of the cost of a generic rate base combustion turbine and reflects WP&L's current capital structure and current interest rates.

Q. Are you sponsoring an exhibit as an alternative to WP&L's avoided cost analyses?

A. Yes. I am sponsoring Exhibit _____ (JA-2), which contains two schedules. Schedule 1 is my analysis of interruptible costs and credits. Schedule 2 is my analysis of WP&L's parallel generation buyback rates. Based on the my analysis of combustion turbine costs and the "peaker" methodology that the Commission has used in numerous rate cases, I conclude that the avoided capacity cost is approximately the same as WP&L's current interruptible credits.

Q. Are you proposing any changes to the interruptible credits for WP&L?

A. No. Exhibit ____ (JA-2), Schedule 1 supports no change in the credits at this time.

Q. Do the avoided capacity cost calculations affect any other rates?

A. Yes. A portion of the parallel generation rates are based this calculation.

Q. Do have any concerns regarding WP&L's proposal for parallel generation rates?

A. Yes. WP&L's proposed parallel generation buyback rates do not reflect the full avoided cost from the "peaker" methodology that the Commission has accepted in past utility rate cases. Mr. Penington argues that the capacity costs should not be included in the buyback rates because WP&L does not control the dispatch of the customer owned-generation that the company buys power from under these rates.

However, the Commission determined that capacity costs are appropriate for inclusion in the buyback rates, when it issued its generic order in dockets 05-ER-11, 12, and 13. In addition, the Commission has approved the inclusion of these costs in previous electric rate case decisions. The buyback rates reflect both energy and capacity costs. The annual capacity cost per kW is divided by the number of on-peak hours in a year and that value is added to the average on-peak marginal energy. Therefore, WP&L

pays for capacity costs for only those on-peak hours that a parallel generation customer is producing.

Q. Please describe Schedule 2 of Exhibit ____ (JA-2).

A. This schedule shows WP&L's parallel generation (buyback) rates, and reflects the "traditional" peaker methodology, as established in dockets 05-ER-11, 12, and 13, with the modifications that the Commission has approved in subsequent rate cases. This analysis is consistent with analyses provided in other rate cases for major utilities in Wisconsin. This analysis supports significant increases in both the on-peak and off peak buyback rates for every voltage level. These parallel generation rates represent the level that WP&L would pay parallel generators that sell energy to the utility. The significant increase is primarily due to higher marginal energy costs. The on-peak rates would increase approximately 54 percent and off-peak rates would increase approximately 32 percent under my proposal. My proposed rates differ from WP&L's cost analysis, due to differences in capacity value used in each calculation and the value of marginal energy costs. My on-peak rates are higher while the off-peak rates in WP&L's cost analysis are higher.

The buyback rate issue is also being addressed by Commission staff witness Mr. John Feit.

Q. Do you have any concerns about the pricing of renewable energy under WP&L's Second Nature program?

A. Yes. WP&L's analysis shows that its current costs for providing renewable energy is lower than the current 2.0 cents per kilowatt-hour that it is charging customer under the Second Nature program tariff. The Commission might choose to lower this adder as has

been done in a recent rate case for Wisconsin Electric Power Company in docket 05-UR-102.

TRANSFORMER RENTALS

Q. Do you have any comments regarding WP&L's proposed changes in the transformer rental charges and the proposed tariff language changes?

A. Yes. WP&L is proposing significant increases for rental charges for distribution transformers. These changes result in a 54 percent increase in revenue from the Cp-8 tariff. However, WP&L's cost for all of the rented distribution transformers has not increased that significantly. It is only the cost of the newer transformers that has increased more over the last several years, as Mr. Penington claims. WP&L's proposal would increase the rate for all of the rented distribution transformers not just the newer ones. This results in large increases for many customers that are still renting the same old transformer that WP&L installed many years ago. This raises a fundamental question whether WP&L's current tariff language should be changed. The pricing approach under the current Cp-8 tariff may have been reasonable in the past when there were lesser annual increases in transformer costs. An alternative to address the significant increase in transformer costs would be to change the Cp-8 tariff so WP&L charges each rented transformer based on its installed cost. This is an approach that has a precedent in WP&L non-standard lighting, NL-1 tariff language. This may be problematic for existing rental transformers if WP&L does not have actual installed cost. If this is the case, an alternative to raising the rental rates for all rental transformers would be to apply the proposed higher rates to only those transformers installed after January 1, 2003. The current rates would apply for the older transformers. If the Commission adopts this

alternative it could also order WP&L to work with Commission rates staff on a better approach for collecting the cost of rental transformers. In addition, I propose that any increase in Cp-8 revenue be added to other operating revenues so that it will offset the increase in Cp-8 from the sales of electricity.

Q. Do you have any comments regarding WP&L's proposed tariff language changes?

A. Yes. WP&L is proposing additional tariff language that would allow it to increase the Cp-8 transformer rental charges if it does not file for a rate change in more than two years. Utilities are prohibited from increasing rates unless a hearing is held.

Q. Do you have any comments regarding WP&L's Second Nature tariff?

A. Yes. The Commission rates staff opposes WP&L's proposal to remove the exemption of fuel adjustment charges for energy sales under the Second Nature tariff.

Q. Does that complete your direct testimony?

A. Yes.

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